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No. 11

In the Supreme Court of the United States

OCTOBER TERM, 1946

ALMA MOTOR COMPANY, PETITIONER

v.

THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES ON REARGUMENT

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OPINIONS BELOW

The opinion of the District Court of the United States for the District of Delaware (R. 33–43) is reported in 47 F. Supp. 582. The opinion of the United States Circuit Court of Appeals for the Third Circuit (R. 112–120) is reported in 144 F. 2d 714.

JURISDICTION

The orders of the Circuit Court of Appeals were entered on August 7, 1944 (R. 111–112, 121). Pursuant to leave of court granted on September 7, 1944 (R. 122), petitioner filed a petition for

rehearing out of time (R. 122). On October 2, 1944, the Circuit Court of Appeals denied the petition for rehearing "after due consideration." (R. 130), and on the same day amended its opinion (R. 129–130). The petition for a writ of certiorari was filed on January 2, 1945, and granted February 5, 1945. Jurisdiction of this Court rests upon Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTIONS PRESENTED

The basic question presented is whether the Royalty Adjustment Act of October 31, 1942 is valid[1] insofar as it was made applicable to petitioner and its licensee, the Timken-Detroit Axle Company, through Royalty Adjustment Order No. W–3 issued by the War Department. In the order restoring this case to the docket for reargument, this Court has requested that counsel give special consideration in their briefs and argument to the following questions:

1. Whether the Royalty Adjustment Act, 56 Stat. 1013, is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured,

[1] In addition, the Government presents the question whether the constitutional issue should now be decided, since there are nonconstitutional grounds which have not yet been considered by the court below, and which may be dispositive of the entire case. This question is discussed in Point I, *infra*.

sold, and delivered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order.

2. Whether Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, Timken-Detroit Axle Company.

STATUTES INVOLVED

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. V, 89–96), known as the Royalty Adjustment Act, is set forth in Appendix A, pp. 81–86. The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. 68), is set forth in Appendix B, p. 87.

INTEREST OF THE UNITED STATES

This brief is filed by the United States as intervenor pursuant to the Act of August 24, 1937 (50 Stat. 751, 28 U. S. C. 401), in order to support the validity of the Royalty Adjustment Act and of Royalty Adjustment Order No. W–3 issued thereunder by the War Department, it having been certified to the Attorney General by the Circuit Court of Appeals that the validity of that Act had been drawn in question in this suit. The United States takes no position as to the merits of the claims asserted by petitioner and respondent against each other, except insofar as the validity

of the Royalty Adjustment Act and Order have a bearing thereon.

STATEMENT

Early in 1938, petitioner (Alma Motor Company), respondent (The Timken-Detroit Axle Company), and one Herrington were parties to an interference in the United States Patent Office, each party owning a patent application for essentially the same device—a mechanism known as a "transfer case" (an auxiliary transmission for automotive vehicles) (R. 33). Following some "preliminary sparring" in the Patent Office, representatives of the three parties held a conference at a Detroit hotel in May 1938 and agreed that petitioner should have the patent and license the other two parties when the patent issued (R. 34). There were "indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating" (R. 34). After the conference, respondent and Herrington formally conceded priority to petitioner, petitioner disclaimed certain counts of the interference which the parties had agreed were anticipated by prior art, and petitioner executed a license agreement with respondent (R. 34).[2] Under this agreement, executed on May 16, 1938, respondent agreed to pay

[2] Herrington withdrew after the Marmon-Herrington Company decided that it did not wish to manufacture the transfer cases.

to petitioner $1,500 immediately and royalties ranging from 50 cents to $1.50 per transfer case, depending upon the weight of the vehicles into which the transfer cases were installed (R. 89–90). A "full return" to petitioner was to be made by respondent upon the "first days of January and July in each year" (R. 89). On September 12, 1939, the patent (No. 2,173,044) actually issued and the license then became effective (R. 4).

DISTRICT COURT PROCEEDINGS

On January 23, 1941, respondent brought this action against petitioner under the Federal Declaratory Judgment Act[1] in the District Court of the United States for the District of Delaware, to declare the patent invalid and the license agreement inapplicable to certain transfer cases manufactured by respondent (R. 2–9, 16–17). Petitioner filed an answer and a counterclaim for royalties alleged to be due under the license agreement (R. 9–13, 17–18). On September 23, 1942, the District Court rendered its opinion (R. 33–43), and on December 2, 1942, entered a judgment (R. 49–51), holding that respondent as a licensee was estopped to question the patent's validity (Par. 3, R. 49); that certain of the transfer cases in question were dominated by the patent and thus subject to royalties under the license (Par. 4, R. 49–50); and that the remainder of

[1] Judicial Code, § 274d (28 U. S. C. 400).

the transfer cases were outside the patent and hence not subject to royalties (Par. 5, R. 50).

On February 27, 1943, petitioner appealed to the court below from Paragraph 5 of the judgment (R. 51), which had held certain transfer cases to be outside the patent. Respondent did not appeal.

ROYALTY ADJUSTMENT PROCEEDINGS

On December 30, 1942, pursuant to Section 1 of the Royalty Adjustment Act of October 31, 1942,[4] the War Department served written notice upon petitioner and respondent that the royalties called for by their license agreement and "now being paid by the United States" are "believed to be unreasonable or excessive;" that an order fixing the rate or amount of royalty deemed fair and just would be issued within a reasonable time; that the licensor and the licensee could, upon request, "present in writing or in person any facts or circumstances which may * * * have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act;" and that until an order is issued "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States" (R. 106–107). The notice also stated that "the

[4] The Royalty Adjustment Act was summarized by this Court in *Coffman* v. *Breeze Corporations, Inc.*, 323 U. S. 316, 319–320.

United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement" (R. 107). On February 8, 1943, upon petitioner's request (R. 107–108), petitioner and respondent appeared before a War Department Examining Board to present "facts and circumstances" bearing upon the royalty to be fixed under the Act (R. 61–86).

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W–3 (R. 93–96). The Order recited that royalties payable by respondent to petitioner under the license agreement were "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States" of the alleged invention covered by the patent; that such royalties were "believed to be unreasonable or excessive taking into account the conditions of wartime production" (R. 93–94); and that the "fair and just" royalty in the circumstances was zero (R. 94, 96). The zero royalty was based upon the belief of the War Department officials that the patent was invalid (R. 73). The Order directed respondent to pay no royalties whatever to petitioner under any license agreement "in respect of any supplies, equipment or materials delivered to or for the War Department," as to which roy-

alties had not been paid prior to the notice (R. 94–95); to pay to the United States any such royalties which had accrued or were to accrue on deliveries to or for the War Department and which had not been paid to petitioner prior to the notice (R. 95); and to reduce the contract price of articles to the War Department or its contractors or subcontractors "to the extent necessary to give the War Department the full benefit of the [ordered] reduction in royalty rates" (R. 95).

PROCEEDINGS IN THE COURT BELOW

After Royalty Adjustment Order No. W–3 was issued, respondent on August 25, 1943, filed a motion in the court below to dismiss the appeal and remand the cause to the district court (R. 53–55). Asserting that respondent "has manufactured and sold transfer cases coming within the [license] agreement * * * only to or for the use of the War Department," the motion alleged that the court's jurisdiction had been withdrawn by the provision in the Royalty Adjustment Act depriving the licensor of any remedy against the licensee for any royalties in excess of those permitted by the Order and making the licensor's "exclusive remedy" for such royalties a suit against the United States for "fair and just compensation" (Secs. 1, 2). By leave of court (R. 96–98), the United States filed a memorandum brief as *amicus curiae*, on November 15, 1943,

contending that if all the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States," as the affidavit supporting respondent's motion averred (R. 60), so that the royalties due thereon were "directly or indirectly charged or chargeable to the United States," then an "actual controversy" between the litigants no longer existed.

On December 6, 1943, petitioner filed in the court below a "Petition to Review and Vacate Royalty Adjustment Order No. W-3" on the ground that the Order and the underlying Act were unconstitutional (R. 98–103). Upon certification by the court below that the constitutionality of the Act had been questioned, the United States intervened under the Act of August 24, 1937 (50 Stat. 751, 28 U. S. C. 401) for the purpose of supporting the constitutionality of the Act and Order (R. 110–111, 113).

After this issue was briefed and argued, the court below rendered its opinion on August 7, 1944 (R. 112–120), holding the Act and Order valid as a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120), and concluding that the Order's direction to pay no royalties whatever to petitioner made the instant suit moot (R. 113). The court accordingly directed the following disposition of the case (R. 120):

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again[5] exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

The court also dismissed the "Petition to Review and Vacate Royalty Adjustment Order No. W–3" (R. 111–112) for want of jurisdiction (R. 119). On October 2, 1944, a petition for rehearing was denied (R. 130).

SUMMARY OF ARGUMENT

1. The validity of the Royalty Adjustment Act should not be determined at this stage of the proceedings, for there are nonconstitutional issues, undecided by the court below, that may be completely dispositive of the case. The court below should decide whether the transfer cases made by respondent are covered by the license, since an affirmance of the district court's holding of noncoverage would end the entire controversy. In any event, since Timken is now free to make

[5] The word "again" was deleted by an order of October 2, 1944, amending the court's opinion (R. 129–130).

transfer cases for private use, there should be a declaration of the royalty rights on any such production. A final adjudication is unavailable so long as the district court's earlier and unreviewed ruling of noncoverage remains unreviewed.

2. The Act is a valid exercise of the war power, invoked here to cope with one of the staggering problems of World War II—the skyrocketing of patent royalties because of the unprecedented increase in war production. The Government concedes, for the purpose of this case, that the royalties stipulated in the license agreement here involved are reasonable, if the patent is valid. And, since the Act permits inquiry into the validity of the patent, the issue presented is whether Congress may thus outlaw the technical rule of estoppel, normally barring a licensee from challenging the validity of the licensor's patent. The power of Congress to do so, we submit, is clear, for the Act merely reaffirms an earlier public policy expressed in the Act of June 25, 1910, as amended (*infra*, p. 87), against saddling the Government with royalty charges for the use of worthless patents. Even without the Act, the ordinary estoppel rule would yield to the overriding policy of the 1910 Act. *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173; *Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U. S. 249.

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Congress, as a matter of wartime necessity, has merely adopted familiar principles of equity, and prescribed a more comprehensive rule. Application of this new rule to royalty claims already outstanding in no way infringes due process. A licensor has no vested right in the technical defense of estoppel, any more than a party may have in the defense afforded by a statute of limitations. Cf. *Chase Securities Corp.* v. *Donaldson,* 325 U. S. 304.

3. In its broader aspects, the Act is valid as a wartime regulatory measure akin to price fixing. Should "just compensation" in the Court of Claims yield less than the stipulated royalties, that is merely the result of fixing a maximum "price" for the use of the invention, and the consequent reduction in the value of the patent, produces no constitutional infirmity. *Yakus* v. *United States,* 321 U. S. 414; *Bowles* v. *Willingham,* 321 U. S. 503. Nor is due process offended when the Act reaches royalties accruing before its enactment. Accrued royalty rights like accrued contract rights are not immune from legislative interference, when the necessity for such interference plainly appears. *East New York Savings Bank* v. *Hahn,* 326 U. S. 230, 232; *Norman* v. *Baltimore & Ohio R. Co.,* 294 U. S. 240; *Philadelphia, B. & W. R. R. Co.* v. *Schubert,* 224 U. S. 603; *Louisville & Nashville R. R.* v. *Mottley,* 219

U. S. 467; *New York* v. *United States*, 257 U. S. 591; *Wright* v. *Union Central Insurance Co.*, 304 U. S. 502. Moreover, the Act is no more than a further regulation of a subject matter regulated long before the patent here involved came into existence. In any event, the Congressional determination to reach accrued royalties is fully justified by the exigencies of war. It could not reasonably be expected that Congress immediately enact all the legislation necessary to cope with the problems stemming from a wartime crisis.

4. The Act is also valid as an exercise of the eminent domain power in aid of the war power. The Act condemns a license under patented inventions, which is independent of the consensual license already held by the contractor, in return for a right to just compensation from the Government. The two constitutional limitations upon the eminent domain power are satisfied—just compensation is provided and the property is taken for a public use. To the extent that the Act prevents full performance of the pre-existing license agreement, due process is not invaded, since frustration of a pre-existing contract by condemnation of its subject matter does not constitute a "taking" of the frustrated contract or the "money" due thereunder. *Omnia Co.* v. *United States*, 261 U. S. 502. The eminent domain power equally supports application of

the statute to royalties accruing before its enactment. The sovereign may take by condemnation whatever type of license could be the subject matter of a voluntary agreement, and in this instance has taken a license covering both past and future uses. If the Act requires a retroactive exercise of the eminent domain power, that is no reason for striking it down. Unusual conditions occasioned by total war often necessitate unusual remedies, and even in peacetime this court has countenanced retroactive exercise of the eminent domain power. *Shoshone Tribe* v. *United States,* 299 U. S. 476.

5. The amount recoverable by petitioner as just compensation is dependent upon the evidence as to the validity of the patent, adduced before the Court of Claims. Since the Government concedes for the purposes of this case that the stipulated royalties are reasonable if the patent is valid, the only issue to be adjudicated in the Court of Claims suit (assuming that petitioner prevails on the coverage issue) is the validity of the patent. If the patent is found valid, petitioner may be entitled to the full amount of the stipulated royalties; if the patent is found invalid, petitioner will be entitled to recover nothing.

6. If any constitutional issue is posed by the instant proceeding, it is narrow in scope. As applied here, the only effect of the Act is to substi-

tute the Court of Claims for the district court as the tribunal for adjudicating petitioner's claim to royalties, and to substitute the United States for the licensee as the formal adversary in the suit. In so doing, the Act is clearly valid, for petitioner is provided with an adequate remedy for enforcement of its rights. The Court of Claims is free under the Act to pass upon all questions of law involved, including constitutional issues, and, as noted above, conceivably may award petitioner an amount equal to the stipulated royalties. Thus, the Act preserves every constitutional right to which petitioner is entitled. Cf. *Anniston Manufacturing Co.* v. *Davis*, 301 U. S. 337.

ARGUMENT

In the court below, the Government agreed with respondent Timken's contention that the validity of the Royalty Adjustment Act was brought into question. The same position was taken in this Court at the prior argument. However, upon reexamination of the case, particularly in the light of the cessation of hostilities, the Government feels compelled to urge that the constitutionality of the Act should not be determined at this stage of the proceedings, since there are nonconstitutional issues, not adjudicated by the court below, that may be completely dispositive of the case. We shall urge in Point I that the case be remanded for a consid-

eration of such grounds. Alternatively, we shall undertake, in Point II, to support the validity of the Act.[6]

I

THE CONSTITUTIONALITY OF THE ROYALTY ADJUSTMENT ACT SHOULD NOT BE DETERMINED AT THE PRESENT STAGE OF THIS PROCEEDING

Basically, three series of transfer cases made by Timken, namely, T–32, T–43, and T–79, were involved in the original proceeding in the district court. Until 1942, Timken paid Alma royalties on the T–43 series only, apparently on the ground that the patent, if valid, applied to such cases alone (R. 13, 60, 65). The district court held that the patent and the coextensive license covered both the T–32 and the T–43 series, but that it did not cover the T–79 series (R. 49–51). Petitioner appealed to the court below solely for review of the correctness of

[6] In thus organizing the Argument, the Government nevertheless intends to meet fully the two questions raised by the Court in its order for reargument. Question 1, regarding the power of Congress to reach royalties which had accrued prior to the enactment of the Act, or prior to the issuance of the Royalty Adjustment Order, is treated in Point II B (pp. 31–37) insofar as the Act abolishes the estoppel rule, in Point II C 1 (pp. 41–58) to the extent that the Act is viewed as a wartime regulatory measure akin to price fixing, and in Points II D (pp. 58–72), insofar as the Act is considered as an exercise of the eminent domain power in aid of the war power. Question 2, regarding the extent to which the Act saves to petitioner any right it may have to recover the full royalties stipulated in the license agreement is answered in Point II E (pp. 72–75); and Point II G (pp. 77–80); see also pp. 56–57, 62–66.

the district court's holding of noncoverage in respect of the T–79 transfer cases (R. 51). Respondent Timken did not take a cross-appeal from the adverse ruling as to the T–32 and T–43 transfer cases. Accordingly, the only subject matter involved in the appeal was the decision of the district court as to the T–79 transfer cases. These constituted the great preponderance of Timken's production.[6a]

The Royalty Adjustment Act was enacted before the appeal was taken and the Royalty Adjustment Order issued before the hearing of the appeal. Despite these intervening events, the court could have addressed itself to the coverage question on the T–79 transfer cases, and if it had affirmed the district court's holding that these transfer cases were not covered by the license agreement, the case would have been at an end and there would have been no occasion to inquire into the constitutionality of the Act. The court, however, selecting an alternative ground for its decision, considered the constitutionality of the Act, and, upon determining

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[6a] We are informed by the War Department that Timken has advised it that between September 12, 1939 and June 30, 1945, Timken shipped 45,696 T–32 cases on which, at a royalty rate of 50¢ per case, $22,848.00 would be due; 8,146 T–43 cases on which, at a royalty rate of 50¢ per case, $4,073.00 would be due, of which $3,713.50 was paid to Alma; and 494,795 T–79 cases on which, at a royalty rate of 75¢ per case, $371,096.25 would be due if covered by the license. Timken claimed in the court below that it had charged royalties only on certain T–43 cases (R. 60).

the Act to be valid, held that the cause had been rendered moot (R. 129–130).

In view of this background, we believe it would be inappropriate for this Court to pass upon the constitutionality of the Royalty Adjustment Act at this stage of the proceeding, for "if there is one doctrine more deeply rooted than any other in the process of constitutional adjudication, it is that [this Court] ought not to pass on questions of constitutionality * * * unless such adjudication is unavoidable." *Spector Motor Co.* v. *McLaughlin*, 323 U. S. 101, 105. And, while it may normally be a matter of judicial discretion as to which of alternative grounds shall be selected as the basis of decision, such is not the case where the only choice is between a constitutional and nonconstitutional ground. It is a familiar canon that a court should "not pass upon a constitutional question although properly presented by the record, if there is also present some other ground upon which the case may be disposed of. * * * Thus, if a case can be decided on either of two grounds, one involving a constitutional question, the other a question of statutory construction or general law, the Court will decide only the latter." Brandeis, J., concurring in *Ashwander* v. *Tennessee Valley Authority*, 297 U. S. 288, 347.

(2) Moreover, there is a further reason why the nonconstitutional issue should be decided first. Apart from the general principle that where there are alternative grounds the nonconstitutional

ground should be chosen, the nonconstitutional ground will have to be decided in any event in this case; and since it may be sufficient to dispose of the case completely, it should be decided first. According to petitioner, its invention "is not of the type that is limited in its application to the production of ordnance or other wartime material. It is an invention that is capable of widespread use for the production of four-wheel drive trucks having extensive private or commercial uses" (Supplemental Brief, pp. 44–45). Thus, with the cessation of hostilities, respondent Timken is free to manufacture these transfer cases for private use. And whatever may be the fate of petitioner's claim to royalties on transfer cases made for ultimate Government use, there remains its claim to royalties on transfer cases that may be manufactured for private use, under the license agreement still having approximately ten years to run (R. 88–90). With respect to the latter claim, the Act and Order are obviously not applicable, and a justiciable controversy remains for decision. Therefore, consideration of the validity of the Act cannot dispose of the present proceeding in its entirety. In contrast, if the court below were now required to pass upon the coverage question, the entire case, both with respect to transfer cases manufactured for Government use, and for private use, might be completely disposed of. For, if the transfer cases in question are not covered by the license

agreement, petitioner can have no right to royalties on any transfer cases, whether made for Government or private use.

Thus, by requiring the court below to pass upon the coverage issue, the validity of the Act might not have to be decided, there might be no necessity for a suit by petitioner in the Court of Claims, and there could be an adjudication of its claim to royalties on transfer cases that respondent Timken may manufacture for private use. We submit, therefore, that sound principles of judicial administration, and familiar canons of constitutional adjudication require that this Court abstain at this stage of the proceedings, from ruling upon the validity of the Royalty Adjustment Act, and that the case be remanded for further consideration of the nonconsttiutional issues which may be completely dispositive of this case.

II

THE ROYALTY ADJUSTMENT ACT IS A VALID EXERCISE OF THE WAR POWER

The Royalty Adjustment Act, here under attack, represents a typical exercise of the war power, and involves the attempt of the Government to promote the successful prosecution of the war by protecting itself from paying excessive royalties or paying royalties under invalid patents for war supplies. Petitioner is the owner of a patent whose validity is seriously challenged. The patent was obtained only after petitioner,

through a private conference with respondent and other competing applicants for the same patent reached an agreement which provided for the unopposed issuance of the patent to it and included a license to respondent. When the agreement was made, there were "indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating" (R. 34). Petitioner now claims that as a result of its license agreement with respondent, the Government must, during wartime, pay royalties for the use of the patented invention, however invalid the patent may be. It is in this setting that the validity of the Royalty Adjustment Act is to be considered in this case.

The Royalty Adjustment Act provides (Sec. 1) that whenever a patented device is "manufactured, used, [or] sold * * * for the United States" under a license stipulating for payment of royalties "believed to be unreasonable or excessive" by the head of the government agency concerned, he "shall give written notice of such fact to the licensor and to the licensee." It provides that within a reasonable time thereafter the head of the agency "shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production." The Act directs the licensee, after the effective date of the notice, not to "pay to the licensor, nor charge

directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacturer, use, sale, or other disposition." The Act deprives the licensor of "any remedy * * * against the licensee for the payment of any additional royalty remaining unpaid." It provides that his "sole and exclusive remedy, except as to the recovery of royalties fixed in said order" is a suit against the United States (Sec. 2) "to recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production." By Section 7 the Act is made applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "have not been paid to the licensor prior to the effective date of the notice," as well as to royalties accruing upon all articles delivered after the effective date. By Section 4 any reduction in royalties authorized by the Act is to "inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid * * * or by way of refund if already paid to the licensee."

As emergency legislation of a temporary nature, enacted to meet one of the needs of a great wartime crisis, the Royalty Adjustment Act finds full support in the Federal war powers. This

is the very same power which permits the Government to control the price of every commodity bought and sold within the national boundaries (*Yakus* v. *United States*, 321 U. S. 414); to fix the amount of rent to be charged for every room, home or building, and this even though to an individual landlord there may be less than a fair return (*Bowles* v. *Willingham*, 321 U. S. 503); to operate railroads (*Northern Pacific Railway Company* v. *North Dakota*, 250 U. S. 135); to prohibit the sale of liquor (*Hamilton* v. *Kentucky Distilleries Company*, 251 U. S. 146); to restrict freedom of speech in a manner that would be unwarranted in time of peace (*Schenck* v. *United States*, 249 U. S. 47); to ration and allocate the distribution of every commodity important to the war effort (*Steuart & Bro.* v. *Bowles*, 322 U. S. 398); to restrict the personal freedom of American citizens by curfew orders and the designation of areas of exclusion (*Hirabayashi* v. *United States*, 320 U. S. 81); and, finally, to demand of every citizen that he serve in the armed forces of the nation (*Falbo* v. *United States*, 320 U. S. 549; *Selective Draft Law Cases*, 245 U. S. 366).

The relationship of the Act to the war powers of Congress is clear. The announced objective of the Act is "to aid in the successful prosecution of the War" (Sec. 1); the "fair and just" royalty preliminarily fixed by the head of the department concerned is to take "into account the

conditions of wartime production" (Sec. 1); and the Act is applicable only "during the continuance of the present war and for six months after the termination thereof" (Sec. 7).

A. THE ACT IS A NECESSARY WARTIME MEASURE

The Royalty Adjustment Act is but one of several wartime statutes designed to cope with the staggering problems confronting the nation during World War II. Only in this setting and in the light of related wartime statutes can the purpose of and necessity for the Act properly be brought into focus.[7]

With the outbreak of World War II, the armed services were faced with procurement problems of unprecedented magnitude. The clear warnings from the course of events, that the United States should look at once to the strengthening of its defenses against aggression, led to the declaration by President Roosevelt of a state of limited emergency on September 8, 1939, and to a greatly accelerated program of procurement and production of munitions and supplies. The attack at Pearl Harbor and the ensuing declaration of war against Germany, Italy, and Japan further multiplied our military and naval needs.

The tremendous increase in the procurement

[7] See Joint Report by the War and Navy Departments concerning the Relation of Patent Licenses and Royalties to War Procurement. Copies of this report will be made available to the court.

requirements of the Government, with which to meet the challenge of aggression and to assure our survival as a nation, may be illustrated by the fact that the total expenditures of the War and Navy Departments for the single fiscal year ending June 30, 1942 ($22,905,000,000) considerably exceeded the total military and naval expenditures of the Government from 1789 through the end of World War I.[8]

One of the items in governmental procurement costs, constituting a significant portion of the total, was royalty payments under patent license agreements between patent owners and the manufacturers and suppliers. Because of the unprecedented increase in production occasioned by World War II, patent royalties leaped to spectacular heights. The increase in royalties was peculiarly noteworthy, first because, unlike the sale of a commodity or service, increased use of the patented invention usually involved no increase whatever in the costs or investment of the patent owner, and second because most of the royalty rates had been fixed with an eye to peacetime production quantities. Hence, the skyrocketing of royalties became one of the outstanding instances of undue profits in wartime. Patent owners who had stipulated for a royalty at a rate which would give them a satisfactory return under normal production schedules, found them-

[8] See Joint Report, p. 2, footnote 7, *supra*.

selves receiving amounts which were hundreds and sometimes more than a thousand times greater. The files of the War and Navy Departments reveal numerous examples of royalties fixed under peacetime production schedules, which became grossly excessive when applied to wartime procurement. Of these a few may be summarized as follows:

Cases illustrative of wartime expansion of royalties

Patented article or process involved	Prewar royalties		Wartime royalties [1]		Percentage of increase
	Amount	Year	Amount	Year	
Rotary wing aircraft and parts	$20,000	1938	$12,000,000	1943	59,900
Turn and bank indicators	10,150	1938	2,201,175	1942	21,586
Radio tube sockets and electrical connectors	16,000	1938	2,000,000	1943	12,400
Reduction gears, dynamic dampers, two-speed superchargers and torque	33,800	1938	4,200,000	1944	12,326
Propellers	18,216	1938	2,126,442	1943	11,573
Stop nut	15,521	1938	1,213,421	1943	7,718
De-icing equipment for aircraft	14,067	1938	972,200	1943	6,811
Aviation training apparatus	50,626	1038	2,400,000	1943	4,641

[1] Royalties due if pre-war royalty rate were applied to war production.

The problem was rendered particularly acute because the Government, under the Act of June 25, 1910, as amended (36 Stat. 851; 35 U. S. C. 68, Appendix B, *infra,* p. 87), had the right to use, or to direct its contractors to use, any patented invention without license, the patent owner's sole remedy being the recovery of reasonable compensation from the United States in the Court of Claims. *Crozier* v. *Krupp,* 224 U. S. 290; *Richmond Screw Anchor Co.* v.

United States, 275 U. S. 331.[9] However, the 1910 Act as amended was held to be inapplicable where the Government contractor held a license from the patent owner (*Newport News Shipbuilding and Dry Dock Co.* v. *Isherwood*, 5 F. 2d 924 (C. C. A. 4), certiorari denied, 269 U. S. 592). Accordingly, where the patent owner had licensed the Government contractor to use the invention, it was believed that the Government could not, without further legislation, avoid the payment, either directly or indirectly, of royalties fixed in the license, no matter how excessive and unreasonable. In cases where two manufacturing facilities were available and necessary for the production of a given article, one licensed and the other unlicensed under the applicable patents, the United States could order the unlicensed manufacturer to proceed, incurring only the obligation to pay reasonable compensation for the use of the relevant patents; whereas a like order to the licensed manufacturer would subject the United States to royalty rates which had been fixed during peace-

[9] The power of the Government to use any unlicensed inventions at a reasonable cost to itself was extended in effect to other types of property necessary to our total mobilization during wartime. See *e. g.*: Sec. 201 of the First War Powers Act (55 Stat. 839, 50 U. S. C. App., Supp. V, 611); Title III of the Second War Powers Act (56 Stat. 177, 50 U. S. C. App., Supp. V, 633); Sec. 1 of the Requisitioning Act of October 16, 1941 (55 Stat. 742, as amended, 50 U. S. C. App., Supp. V, 721); Sec. 9 of Selective Training and Service Act of 1940 (54 Stat. 892, 50 U. S. C. App., Supp. V, 309).

time without the participation of the United States, and which were obviously exorbitant when applied to the staggering volumes of wartime production. This situation was aggravated in those cases where the patent was invalid, or not effective against the United States. Here the estoppel normally operative between licensor and licensee would, if applied to the Government's war production, require the public treasury to pay out very substantial amounts of taxpayers' money for a wholly worthless right, given an artificial value through a private business arrangement made during peacetime.

The anomaly of such situations was not lost on many patent owners themselves. In some cases between December 7, 1941, and October 31, 1942, patent owners cooperated with the War and Navy Departments by voluntarily agreeing to reduce royalty rates. Often, however, patent owners insisted upon receiving the fixed royalties no matter how excessive, and in many instances their licensees were the only sources adequately provided with the equipment and knowledge essential to the expeditious and efficient use of the inventions. As a consequence, the Government was confronted with the dilemma of paying the exorbitant royalties or foregoing production of critical war items at the licensed plants. The Armed Services, which were responsible for the great bulk of war procurement, believed that

the best interests of the nation during the war required that all Government contractors be placed in the same position with respect to the manufacturing cost of a particular item of procurement, regardless of whether they were licensed or unlicensed Recognizing these factors, an appropriate bill was introduced in Congress, at the request of the War and Navy Departments, which became the Royalty Adjustment Act on October 31, 1942.[10]

The basic objective of the Royalty Adjustment Act—to assure the Government of reasonableness and uniformity in procurement costs—found expression in other aspects of our wartime controls. Thus, the Renegotiation Act of April 28, 1942, as amended (56 Stat. 245, 50 U. S. C. App., Supp. V, 1191), provided a means for reducing and eliminating excessive profits under war contracts, and the Emergency Price Control Act of January 30, 1942, as amended (56 Stat. 23, 765, 50 U. S. C. App., Supp. V, 901, 961 *et seq.*), imposed restrictions in the field of private enterprise upon the prices of materials and supplies large parts of which eventually entered the stream of war procurement. Steps were also taken to assure that unreasonable royalties already paid to a patent

[10] Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d sess.); H. Rep. No. 2602 on S. 2794 (77th Cong., 2d sess.); S. Rep. No. 1640 on S. 2794 (77th Cong., 2d sess.).

licensor before the issuance of a notice under the Act (and therefore exempt from the Act), should be subject to recapture by the Government. When the Renegotiation Act was amended on October 21, 1942, so as to define subcontract to include any agreement to "furnish any article, required for the performance of another contract or subcontract," and to define the term "article" to include any "personal property" (Revenue Act of 1942, Tit. VIII, Sec. 801 (a), 56 Stat. 798, 982), the Judge Advocate General of the Army held that the Act applied to patent royalty agreements. See *Joint Renegotiation Manual*, Chap. III, Sec. 3, Par. 334.3. Thereafter, the Price Adjustment Boards of both the War and Navy Departments considered patent license agreements to be renegotiable as subcontracts within the meaning of the Renegotiation Act. The Renegotiation Act was regarded as applicable to royalties already paid over to the licensor during a past renegotiation year and the Royalty Adjustment Act was regarded as applicable to royalties that had accrued but had not been paid over at the time the question of reasonableness arose. This policy was formalized in the Renegotiation Regulations, Chap. III, Sec. 334.3.

Operations under the Royalty Adjustment Act have confirmed the Congressional determination as to the need for the measure. It is estimated that, as of June 30, 1945, more than one-half

billion dollars was saved the Government through operations under the Act. These savings were, in the largest measure, represented by settlements under Section 3 of the Act.[11] A detailed analysis of the operations under the Act is contained in a Joint Report by the War and Navy Departments concerning the Relation of Patent Licenses and Royalties to War Procurement, copies of which will be made available to the Court.

B. THE ACT, AS APPLIED HERE, MERELY ABOLISHES PRO TANTO THE RULE ESTOPPING A LICENSEE FROM CHALLENGING THE VALIDITY OF THE LICENSOR'S PATENT

For the purpose of this case, the Government does not question the reasonableness of the royalties stipulated in the license agreement here involved. The heart of the controversy is the validity of the patent. The Government concedes that if the patent is valid, the royalties specified in the license agreement are reasonable. In this posture of the case, the issue presented is whether Congress may outlaw the technical rule of estoppel in those cases where its application would permit royalties under worthless patents to be charged to

[11] Between October 31, 1942, when the Act became law, and June 30, 1945, 541 settlements were made without the commencement of formal proceedings. During the same period the Government issued 117 notices, which resulted in 42 orders, 20 settlements, 5 cases closed without adjustment, and 50 outstanding notices. Six of the above-mentioned orders were in turn converted into settlement agreements.

the Government upon war production.[12] The power of Congress to do so, we submit, is clear.

(1) To the extent that the Royalty Adjustment Act circumscribes the estoppel rule, it merely reaffirms an earlier stated public policy against saddling the Government with royalty charges for the use of worthless patents. Long before the issuance of petitioner's patent and the existence of the license agreement here involved, Congress, by the Act of June 25, 1910, as amended (36 Stat. 851, as amended, 35 U. S. C. 68; Appendix B, *infra*, p. 87), made clear that the unlicensed use of a patented invention by or for the Government would result in no more reward to the patent owner than "reasonable and entire compensation" through suit in the Court of Claims; and the Act completely saved to the Government the defense of invalidity of the patent. The Act thus embodied the principle that the owner of an

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[12] Section 2 of the Act makes available to the United States when sued for just compensation, "all defenses, general or special, that might be pleaded by a defendant in an action for infringement" (Appendix A, *infra*, p. 81). This provision is taken from the 1910 Act, as amended (Appendix B, *infra*, p. 87). At the hearings, it was pointed out that the 1910 Act as amended recognizes the right of the Government to show that the patent upon which suit is brought is worthless for one reason or another (Hearings, p. 48, fn. 10, *supra*, p. 29). The sponsors of the Act plainly regarded validity as a proper subject of inquiry in determining the amount of royalty to be fixed in a Royalty Adjustment Order (Hearings, p. 71, fn. 10, *supra*, p. 29).

invalid patent could expect no profit from its use by or for the Government.

It is true that in *Newport News Shipbuilding & Dry Dock Co.* v. *Isherwood*, 5 F. 2d 924 (C. C. A. 4), certiorari denied, 269 U. S. 592, it was held that the 1910 Act, as amended, did not extend to licensed use of patented inventions for the Government. But in that case no question was raised as to the validity of the licensed patent and, whatever purpose Congress may have had in exempting licensed use of patents from the 1910 Act, as amended, it by no means follows that Congress intended to exempt licensed uses of an invalid patent. Neither the *Newport News* case nor any decision of this Court has ever suggested such result. In this context, we submit, there has existed since the enactment of the 1910 Act, as amended, a statutory disapproval of the payment of royalties under an invalid patent. Thus, the ordinary rule of estoppel between licensor and licensee would, even without the Royalty Adjustment Act, yield to the overriding policy of the 1910 Act, as amended.

Precedents for this limitation upon the estoppel doctrine are at hand. In *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, a patent licensee, who was sued for royalties, asserted that a price-fixing clause in the license agreement violated the antitrust laws because the patent was invalid. This Court upheld that defense and

rejected the plea that the licensee was estopped to question the validity of the patent. Mr. Chief Justice Stone said (at pp. 176–177):

> The federal courts have been consistent in holding that local rules of estoppel will not be permitted to thwart the purpose of statutes of the United States. * * *
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> * * * * * *
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> Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492–93.

The application of the rule of the *Sola* case here is clear. The public policy enunciated in the 1910 Act, as amended, is that Government production shall not bear the cost of royalties under worthless patents. If petitioner were to prevail here, an invalid patent could be hidden behind a plea of estoppel, so as to "fasten upon the public" as well as the Government the financial burden of tribute under an invalid patent.

The doctrine of the *Sola Electric* case was again applied in *Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U. S. 249. There, in an infringement suit by a patent assignee against the assignor, the assignor was not estopped to

assert that the patented device had been anticipated by an expired patent. This Court held that the estoppel doctrine was overridden by the broader public purposes of the patent laws dedicating the invention of a patent to the public upon its expiration, and observed that "The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power" (326 U. S. at 257). So here, whatever ordinary considerations of good faith between the licensor and licensee may exist, they may not be made the "means of sacrificing a public interest," expressed in the 1910 Act, as amended, of freeing the Government from royalty charges for the use of a worthless patent.

(2) For the reasons stated above, we believe that, even without the Act, the estoppel rule would yield to the outstanding public policy against saddling the public with royalty charges under worthless patents. Assuming, however, that the estoppel doctrine would apply if the Act had not been adopted, the question then arises as to whether Congress may abolish the estoppel rule in such circumstances. We submit that Congress, under its war powers, clearly has such power.

The Act, insofar as it restricts the estoppel rule, merely embodies familiar principles evolved

by the courts. Courts of equity have commonly declined to apply the estoppel rule where it would defeat a substantial public interest. This is graphically illustrated by the decisions of this Court in *Sola Electric Co.* v. *Jefferson Electric Co., supra,* and *Scott Paper Co.* v. *Marcalus Mfg. Co., supra.* Since equity courts have traditionally imposed restriction upon the estoppel doctrine in individual cases, "there is no constitutional reason why in lieu of the more restricted control by a court of equity," Congress "cannot institute a [more] * * * comprehensive rule." Cf. *Gelfert* v. *National City Bank,* 313 U. S. 221, 233.

In the *Marcalus* case, it was implicit that whatever vitality might otherwise remain in the estoppel rule, it was subject to the will of Congress, which has "discretion in considering what is good and what is bad in the rule and fashioning legislation appropriate to the diversified aspects of the problem." See dissenting opinion of Mr. Justice Frankfurter (326 U. S. at 261). There can be nothing "good" in a rule which requires the Government, in a period of total war, to bear the cost of royalty charges under worthless patents. Congress found no such "good;" and, by the Royalty Adjustment Act, determined to abolish the rule, *pro tanto,* for the war period. Every justification for legislative restriction upon the estoppel rule was present in the circumstances surrounding the enactment of the Royalty Adjustment Act.

If, as we contend, Congress has the power to eliminate the estoppel rule, there is nothing in the Fifth Amendment preventing application of the statute to royalty claims already outstanding. For neither petitioner nor any other licensor has a vested right in the technical defense of estoppel, any more than a party may have in the defense afforded by a statute of limitations (*Chase Securities Corp.* v. *Donaldson*, 325 U. S. 304). Such defenses, although having a real and substantial bearing upon any realization on a claim, are deemed to "go to matters of remedy, not to destruction of fundamental rights." *Chase Securities Corp.* v. *Donaldson, supra*, at p. 314.

C. IN ITS BROADER ASPECTS, THE ACT IS A WARTIME REGULATORY MEASURE AKIN TO RICE-FIXING

We have heretofore argued, *supra*, pp. 31–37, that the Act, as applied here, merely abolishes *pro tanto* the rule which estops a licensee from challenging the validity of the licensor's patent. This argument has been predicated upon the Government's concession that the royalties here involved are reasonable if petitioner's patent is valid. However, even if the instant case be viewed as one involving not merely the validity of the patent, but the reasonableness of the royalties, there can be little doubt of the validity of the Act as a wartime regulatory measure akin to price-fixing.

To the extent that recovery of "just compensation" may produce less than the royalty rate

stipulated in the license (see discussion, *infra*, pp. 72–75), the Act and Order herein will reduce petitioner's return under its license agreement. However, this effect is merely the result of fixing a maximum "price" for the use of the invention in government production. The consequent reduction in the value of the licensor's patent is a result of, but not an infirmity in, the price regulation.

In *Yakus* v. *United States*, 321 U. S. 414, and *Bowles* v. *Willingham*, 321 U. S. 503, this Court upheld certain provisions of the Emergency Price Control Act of 1942 (56 Stat. 23, 50 U. S. C. App., Supp. V, 901 *et seq.*), together with regulations thereunder, establishing maximum prices for meat and maximum rent for dwellings. In the *Willingham* case, this Court said (321 U. S. at 517–519):

> * * * price control, the same as other forms of regulation, may reduce the value of the property regulated. But, as we pointed out in the *Hope Natural Gas Co.* case (320 U. S. p. 601), that does not mean that the regulation is unconstitutional. * * *
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> * * * We need not determine what constitutional limits there are to price-fixing legislation. Congress was dealing here with conditions created by activities resulting from a great war effort. *Yakus* v. *United States, supra.* A nation which can demand the lives of its men and women in the waging of that war is under no constitutional necessity of providing a system of price control on the domestic front

which will assure each landlord a "fair return" on his property.

That reasoning is applicable here. Congress may validly regulate, at a generally reasonable level, the price of food and shelter in order to prevent profiteering and inflation resulting from a shortage of housing facilities or commodities—"conditions created by activities resulting from a great war effort." Congress may likewise regulate, at a reasonable level, the price (royalties) payable by its war contractors for the use of patented inventions and chargeable to the public treasury. No less than the price-fixing under the Emergency Price Control Act, the Royalty Adjustment Act would prevent profiteering and the inflationary effect of exorbitant procurement costs during wartime.[13]

[13] The Act, by providing for judicial review of the action taken by the Royalty Adjustment Board, clearly meets the requirements of due process. In this respect the Act is more favorable to the property owner than was the Price Control Act. Judicial review under the Price Control Act is limited to determining whether the regulation is "not in accordance with law, or is arbitrary or capricious" (Sec. 204 (b); 50 U. S. C. App., Supp. V, 924 (b)). This means that a price or rent regulation which complies with the statutory requirements, and is not arbitrary or capricious, is valid even though the individual property owner may obtain less than a "fair return on his property." *Bowles* v. *Willingham*, 321 U. S. 503, 516–519. Under the Royalty Adjustment Act, on the other hand, the patent owner is given the right to a judicial determination of whether the royalty rate prescribed in the order gives him "fair and just compensation"; and if the court should differ on this point with the executive agency which issued the order, the United States stands liable for the difference.

The objectives of these statutes are strikingly similar. One purpose of the Emergency Price Control Act was "to assure that defense appropriations are not dissipated by excessive prices" (Sec. 1 (a)), and the Act was effective in reducing the costs of the war to the Government by many billions of dollars. The Royalty Adjustment Act is likewise aimed at preventing excessive charges to the Government resulting from wartime conditions, and as of June 30, 1945, it had saved the Government approximately one-half billion dollars (see p. 30, *supra*). Under the doctrine of the *Yakus* and *Willingham* decisions, Congress could validly have authorized the administrative reduction of all royalties to a reasonable level, whether they were payable by a Government contractor or by any other licensee. The fact that the regulation of royalties under the Royalty Adjustment Act is limited solely to manufacture or use for the Government does not make the Act less valid. A patent owner cannot complain that Congress has not exercised its fullest powers. Moreover, there is a reasonable basis for thus limiting the regulation. A royalty rate geared to peacetime uses will generally become excessive where the invention is one whose use is greatly multiplied by the needs of war.[13a]

[13a] Contrary to petitioner's contention (Supplemental Brief, pp. 18–19), the Act contains adequate standards for guidance in its administration. It is well settled that the standards of a statute are sufficiently definite where the Act

1. The retrospective aspects of the Act comport with due process

By Section 7, the Act is made applicable to "all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials" which are either (1) "delivered to or for the Government from and after the effective date of the notice," or (2) "already delivered to or for the Government," if the royalties have not been "paid to the licensor prior to the effective date of the notice" (Appendix A, *infra*, pp. 84–85). Thus, the Act would permit adjustment of royalties not only as to uses of an invention occurring after its enactment or after a notice is issued thereunder, but also as to prior uses for Government production, if the royalties have not been paid to the licensor at the time the

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requires that the rates to be fixed are to be "just and reasonable." Cf., *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591; see also *Bowles* v. *Willingham*, *supra*, at 516–519. The Royalty Adjustment Act readily meets this test by requiring that the royalty rate fixed in the order be "fair and just" for the particular patent owner, "taking into account the conditions of wartime production" (Sec. 1). And, since the Court of Claims may allow an additional recovery, if necessary, to make the total compensation to the patent owner "fair and just," that alone supplies an adequate standard for administrative regulation. In *Levy Leasing Co.* v. *Siegel*, 258 U. S. 242, this Court upheld as a valid exercise of the state's police power, a New York statute which limited the recovery of a landlord against his hold-over tenant to a "reasonable rental, to be determined by the courts." This Court ruled that such a standard was "sufficiently definite to satisfy the Constitution" (258 U. S. at 250).

notice was issued.[139] Included in the royalties covered by the Royalty Adjustment Order here involved were accrued royalties representing deliveries before the Act was passed, and deliveries between the Act's approval (October 31, 1942) and issuance of the notice thereunder (December 30, 1942).

In the Order restoring this case to the docket for reargument, this Court has requested that counsel give special consideration to: "Whether the Royalty Adjustment Act, 56 Stat. 1013, is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold, and deliv-

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[139] In its Supplemental Brief, pp. 23–28, petitioner, for the first time, contends that there is doubt as to whether the Act is intended to apply to royalties accruing prior to its enactment, and urges that the Act should only be construed as prospectively applicable, in order to avoid difficult constitutional questions. This position is plainly unsound. Section 7 expressly recognizes that royalties may become due for materials delivered after the notice, or for materials delivered before the notice, and states without qualification that "all" royalties for materials "already delivered," if unpaid "prior to the effective date of the notice," shall be subject to adjustment. There is not the slightest suggestion in the Act that the delivery of the materials must have occurred after the enactment of the Act.

If there were any doubt as to the coverage of the statute, it could quickly be dispelled by the legislative history. When originally introduced, the Act, by Section 7, was confined to royalties for materials "deliverable to the Government from and after the date of the approval hereof" (Hearings, pp. 6–7, fn. 10, *supra*, p. 29). The Senate Committee on Patents

ered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order." The answer to both these questions, we submit, is clearly in the affirmative. The Act cuts across accrued private contract rights to no greater extent than did numerous types of regulatory statutes, both Federal and state, whose validity this Court has sustained under various *peacetime* powers (see *infra*, pp. 45–50), and, as the court below observed, "If individual contract rights may be interfered with in pursuance of regulatory power exercised on behalf of the general public it is even clearer that such rights are subordinate to the public interest

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amended Section 7 to make it applicable to "all royalties * * * for * * * materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act" (S. Rep., p. 6, fn. 10, *supra*, p. 29). The Committee Report shows that this change was adopted upon the War Department's recommendation "to extend the application of the bill * * * to royalties unpaid at the time of enactment of the bill as well as to those which become payable thereafter" (S. Rep., p. 5; see Hearings, pp. 9, 17–18, 20; fn. 10, *supra*, p. 29). The House Committee on Patents then converted Section 7 into its present form, so as to reach only royalties remaining unpaid at the issuance of the notice, rather than at the enactment of the Act (H. Rep. 2602 on S. 2794 (77th Cong., 2d Sess.) pp. 2–3, fn. 10, *supra*, p. 29). The Committee made it perfectly clear that it did not intend to exempt "all royalties remaining unpaid at the date of the passage of the Act," pointing out that such royalties would "be carefully scrutinized by the various interested Government departments and agencies," and would be reached if they "had not been paid to the licensor prior to the effective date of such notice" (H. Rep., p. 3, fn. 10, *supra*, p. 29).

when compensation is given the individual for such interference" (R. 118).

a. The Act May Properly Apply to Royalties Accruing Prior to Its Passage

The sponsors of the Royalty Adjustment Act did not consider that the problem of unreasonable royalties would be fully solved by regulating royalties on future production alone. While our participation in the war was in its first year, the National Emergency was completing its third. Royalties had already mounted under war contracts, which, when paid by the contractor, would be charged to the Government. To treat all licensors as equally as possible, the War Department had recommended to Congress that the Act be made applicable to all accrued but unpaid royalties. This proposal ignored excessive royalties already paid and to that extent would not remove the inequity between licensors cooperating and those declining to cooperate with the Government in royalty reduction, but it was felt that the administrative inconvenience involved in reexamining executed transactions would outweigh the considerations in favor of complete and ideal equality.[14] However, the exclusion from the Act of royalties already paid before the issuance of a notice did not free them of regulation, for only a

[14] See Joint Report by the War and Navy Departments on the Relation of Patent Licenses and Royalties to War Procurement, p. 12.

week prior to the enactment of the Act, the Renegotiation Act had been so amended that the Judge Advocate General of the Army held patent royalty agreements to be renegotiable (see pp. 30–31, *supra*).

We believe there can be no question of the power of Congress to reduce the accrued royalties to a fair and just amount. We shall show that (i) in appropriate circumstances, such royalty rights, like other accrued contract rights, are not immune from legislative interference, (ii) the Act regulates a subject matter which was already subject to regulation, and (iii), in any event, the exigencies of war here justify the retroactive portion of the Act.

(i) Accrued royalty rights, like accrued contract rights, are not immune from legislative interference

The fact that a statute may operate retroactively or have a retroactive effect does not of itself make the statute invalid. *Blount* v. *Windley*, 95 U. S. 173. From early days, this Court consistently has sustained the validity of legislation having a retroactive effect on existing property rights. *Curtis* v. *Whitney*, 13 Wall. 68. Contract rights, already accrued through partial or total execution of the contract involved, are no less immune from legislative interference even though such accrued rights will be partially or totally impaired. "The sovereign right of the Government is not less because the property af-

fected happens to be a contract." *Calhoun* v. *Massie*, 253 U. S. 170, 176. Such agreements "must necessarily be regarded as having been made subject to the possibility that, at some future time, the Congress 'might so assert its whole constitutional power as to render the agreement unenforceable or to impair its value.'" *Norman* v. *Baltimore & Ohio R. Co.*, 294 U. S. 240, 309. While this Court has been vigilant in safeguarding private contract rights from arbitrary legislative interference, nevertheless where the Congress in the exercise of an admittedly granted power has adopted a means reasonably adapted to achieve a legitimate end, such legislation has withstood challenge under the due process clause even though the effect is to set aside or reduce the value of accrued contract rights. *Philadelphia, B. & W. R. R. Co.* v. *Schubert*, 224 U. S. 603; *Louisville & Nashville R. R.* v. *Mottley*, 219 U. S. 467; *New York* v. *United States*, 257 U. S. 591; *Wright* v. *Union Central Insurance Co.*, 304 U. S. 502.

In all of the above cases, rights under a pre-existing contract had accrued to one party upon partial or full performance of his part of the contract. Thus, in the *Norman* case the bondholder had already paid for his bonds; in the *Calhoun* case the attorney had performed substantially all of the services required by his contract; in the *Schubert* case the railroad had already made substantial contributions to the "Relief Fund;" in the *Mottley* case the pass

holder had given a full release of his damage claims against the railroad; in *New York* v. *United States,* the state had already granted the charter to the railroad; and in the *Wright* case the mortgagee had long since advanced his money to the mortgagor. Yet in all of these cases, the subject matter of the rights being within the power of Congress, this Court upheld the validity of the legislation, notwithstanding the cancellation or reduction in value of the accrued contract rights.

This Court has likewise sustained the validity of state legislation substantially reducing or eliminating the value of accrued contract rights. *East New York Savings Bank* v. *Hahn,* 326 U. S. 230 (statute suspending mortgagor's right of foreclosure, applied to mortgage executed prior to the Act); *Faitoute Iron & Steel Co.* v. *City of Asbury Park,* 316 U. S. 502 (municipal insolvency statute, applied to preexisting bonds and interest coupons, giving creditor less than stipulated interest); *Gelfert* v. *National City Bank,* 313 U. S. 221 (statute permitting scaling down of deficiency judgment after foreclosure sale of mortgaged property—applied to mortgagee who, under law existing when mortgage was executed, was entitled to full deficiency judgment); *Veix* v. *Sixth Ward Assn.,* 310 U. S. 32 (statute limiting right which purchaser of shares in building and loan association had to withdraw them under law at time of purchase); *Honeyman* v. *Jacobs,* 306

U. S. 539 (statute prohibiting deficiency judgment where mortgagee has bid in property at foreclosure sale and value of property equals the indebtedness—applied to default occurring before the Act); *Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124 (statute, as applied to notes and deed of trust executed prior to Act, providing that where mortgagee buys in the property for less than mortgage indebtedness, his suit for deficiency may be defended on ground that value of the property equalled the debt); *Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398 (mortgage moratorium law extending period of redemption, applied to foreclosure occuring prior to Act); *Marcus Brown Holding Co.* v. *Feldman*, 256 U. S. 170 (rent control act barring actions to recover possession, applied to lease expiring prior to Act and including covenant to surrender possession on expiration of lease); *Pennsylvania Hospital* v. *Philadelphia*, 245 U. S. 20 (municipality permitted to open street through hospital grounds, despite outstanding contract under which hospital corporation had made payments of money and furnished ground for a designated street in return for agreement forbidding opening of any street through the hospital grounds without hospital's consent).

The legal theories upon which this Court has permitted invasion of accrued contract rights have varied considerably. Thus it has been said that the statute merely touches upon the remedy

rather than upon the contract right itself (*Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124; *Honeyman* v. *Jacobs*, 306 U. S. 539); or that a "reservation of essential attributes of sovereign power is * * * read into contracts as a postulate of the legal order" (*Home Building & Loan Ass'n* v. *Blaisdell*, 290 U. S. 398, 435); or that there has been "an exercise of the sovereign right of the Government to protect the * * * general welfare of the people," a power which is "paramount to any rights under contracts between individuals" (*Manigault* v. *Springs*, 199 U. S. 473, 480); or that "when contracts deal with a subject matter which lies within the control of the Congress, they have a congenital infirmity" (*Norman* v. *Baltimore & Ohio R. Co.*, 294 U. S. 240, 307–308); or that the subject matter of the legislation had already been the subject of regulation in some past period (*Veix* v. *Sixth Ward Assn.*, 310 U. S. 32). But, as this Court observed only last term, "the formal mode of reasoning [in these cases] * * * is of little moment;" they yield "this governing constitutional principle: when a widely diffused public interest has become enmeshed in a network of multitudinous private arrangements, the authority of the State to safeguard the vital interests of its people * * * is not to be gainsaid by abstracting one such arrangement from its public context and treating it as though it were an isolated private contract constitutionally immune from impairment"

(*East New York Savings Bank* v. *Hahn*, 326 U. S. 230, 232). While this was said with reference to exercise of the police power of the states, the same may be said of the exercise of the Federal war power which is at least as broad as the police power of the states (*Hamilton* v. *Kentucky Distilleries Co.*, 251 U. S. 146, 156).

These principles are squarely applicable here. The right of a licensor to royalties for the use of his patented invention derives from a grant under Congressional authority; the use of his invention by Government contractors in connection with war production relates directly to the war effort. Consequently, private contracts stipulating for patent royalties on account of war use of the invention are peculiarly within the area of federal power and subject to its operation. Whatever the value of petitioner's license rights against respondent when the Act was passed, and whatever the extent to which those rights had "accrued," Congress saw fit, in the exercise of its war powers, to decline to pay excessive royalty charges. This policy Congress chose to apply to all unpaid royalties chargeable to the Government, whether they accrued before or after the Act. The reduction, if any, in the value of the licensor's right under his license agreement as a result of this legislation no more invalidates it than did the reduction in the value of the accrued contractual rights in the cases mentioned above.

(ii) The Act regulates a subject matter which was already subject to regulation

As a practical matter, the Royalty Adjustment Act, as applied here, is no more than a further regulation of a subject matter which was regulated long before the patent and license agreement here involved came into existence. Patent owners had notice, 32 years before the act here in question, of the Congressional policy to pay just compensation, instead of an infringer's damages or profits, for use of patented inventions. Act of June 25, 1910, 36 Stat. 851. And 24 years before the instant Act, that policy was extended to permit use by a government contractor on the same terms. Act of July 1, 1918, 40 Stat. 705. Patent owners, faced with three decades of the use of the Federal power to permit use of a patented invention for a fair and just price, were not entitled to assume that Congress would allow agreements between private parties to fix exorbitant and excessive charges to the Government for wartime use of the invention.

In these circumstances, the determination by Congress that there should be equality of cost between licensed and unlicensed use by a Government contractor, and that equality should begin with any uses of the invention as to which royalties had not already been paid to the licensor at the time their excessiveness was determined, is neither unreasonable nor arbitrary. The license agreement between petitioner and respondent

"must necessarily be regarded as having been made subject to the possibility that, at some future time, Congress might so exert its whole constitutional power * * * as to render that agreement unenforceable or to impair its value." *Louisville & Nashville R. R.* v. *Mottley*, 219 U. S. 467, 482. The power of Congress to invoke the Federal war powers in order to keep the cost of governmental use of patented inventions in wartime down to reasonable charges, must surely be as free as the interstate commerce power from the fetters of "existing arrangements" and the "prophetic discernment" of private individuals. See *Sproles* v. *Binford*, 286 U. S. 374, 390–391.[15]

(iii) In any event, the exigencies of war justify the determination to reach accrued royalties

Even if the Act be viewed as touching a subject matter not heretofore regulated, the Congressional determination to reach accrued royalties is fully justified by the exigencies of war. In our view, Congress could well have determined to regulate by this statute all patent royalties chargeable to the United States upon war production, not only those accrued and outstanding, but also those already paid over to the licensor. Instead, however, roy-

[15] It is immaterial that the Act may be applied to uses of inventions prior to December 7, 1941, the date on which the United States was plunged into World War II. In the instant case, the royalties involved date back to September 1939 (R. 12, 89). The Act's application to such uses is clearly correct. The Congressional determination here is not arbitrary,

alties actually paid over to the licensor were excluded from the Royalty Adjustment Act, but covered by the Renegotiation Act (see discussion, *supra*, pp. 30–31). This underscores the fact that the Royalty Adjustment Act, like the Renegotiation Act, is but one of the measures adopted by Congress to cope with the widespread economic dislocations occasioned by production for total war. Considering the colossal problems which confronted the Congress with the coming of war, it could not reasonably be expected that the Congress immediately would enact a comprehensive legislative program to cover all the problems stemming from the wartime crisis. Even within

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nor does it "involve an impossibility." Cf. *Old Dominion Land Co.* v. *United States*, 269 U. S. 55, 66. The "conditions of wartime production" referred to in Sections 1 and 2 of the Act, which caused pre-existing royalty rates to become exorbitant, did not arise overnight on December 7, 1941. They were present in September 1940 when Congress passed the Selective Training and Service Act (54 Stat. 885, 50 U. S. C. App., Supp. V, 301–318), and in May 1941 when the President proclaimed an unlimited national emergency (Proc. No. 2487, 6 F. R. 2617, 50 U. S. C. App., Supp. V, pp. 1079–1080). The impact of the impending world conflict was beginning to be felt in February 1936, when "in the interest of national defense" Congress prohibited the export of tin-plate scrap except upon license issued by the President (Act of February 15, 1936, 49 Stat. 1140, 50 U. S. C. 86–88); and in June 1938, when Congress authorized the Secretary of War to place educational orders for munitions of war "needed in the military service" in order "to familiarize commercial and manufacturing establishments with the manufacture of such munitions" (Act of June 16, 1938, 52 Stat. 707, 50 U. S. C. 91–94).

the field of procurement, it was vital that emphasis be placed first upon production. Matters of price and profits, while important, were secondary at the moment. The novelties and uncertainties in wartime production counseled against hasty action on prices and profits. In these circumstances, it was to be expected that some delay would ensue before Congress could formulate appropriate regulatory programs such as were embodied in the Renegotiation Act and the Royalty Adjustment Act. And it is inconceivable that, because of such necessary delay, the Congress, from the standpoint of constitutional power, could be rendered helpless to repair the damage done in the period intervening between the outbreak of war and the enactment of remedial legislation.

This Court has recognized that even in peacetime there must be, with respect to a certain type of legislative problem, a time lag between the occurrence of events needing regulation and enactment of the requisite legislation; and in such case, the retroactive aspect of the legislation has not in any way impaired its validity. This has been true in the field of taxation, where retroactivity in its purest form has been fully sustained. Thus, in *Welch* v. *Henry,* 305 U. S. 134, this Court upheld the validity of a Wisconsin income tax statute of 1935 imposing a tax on

income received in 1933. See also *Billings* v. *United States*, 232 U. S. 261; *Hecht* v. *Malley*, 265 U. S. 144, 164; *United States* v. *Hudson*, 299 U. S. 498, 500. If Wisconsin can reach back over a period of more than two years to recapture ordinary profits on transactions long since completed, it would seem clear that Congress can, by an exercise of the war power, reach back over a comparable period to regulate unreasonable royalties accruing prior to enactment of the Royalty Adjustment Act. Surely the war power, for such purposes, is at least as broad as a state's power of taxation.

b. The Act May Properly Apply to Royalties Accruing Between the Enactment of the Act and the Promulgation of the Royalty Adjustment Order.

The principles discussed above sustain the application of the Act, as a valid exercise of the war power, to all uses of a patented invention, before or after the Act was passed. However, in respect of uses occurring after the Act but before issuance of an order thereunder, the Act is supportable on additional grounds.

Regardless of whatever notice patent owners had before the Act (see *supra*, pp. 51–52), it is perfectly clear that adoption of the Act notified patent owners that royalties for the use of their inventions in war production would be subject to regulation, and the issuance of the Royalty Ad-

justment Order in any one case could hardly come as a surprise. In this aspect, the patent owner's contractual rights, upon the enactment of the Act, were affected no differently from the rights of a party to an executory contract whose subject matter becomes the object of a regulatory statute. And a regulatory statute is not invalid merely because it sets aside or reduces the value of a prior private contract (see *supra*, pp. 45–50).

There can be no valid objection to adjustment of royalties for uses of the patented invention between the issuance of a notice and the promulgation of a Royalty Adjustment Order, for the notice gives advice to the particular patent owner that thereafter any royalties for uses of his invention will be subject to adjustment. The notice device, as shown by the legislative history of the Act, is a measure protecting the patent owner. Thus, at the hearings, a representative of the Navy Department stated:

> I may say that I feel that if we do not have the provision in as it stands there will be less opportunity for discussion with the owner of the patent relative to the amounts of the royalties, and it would be necessary for more precipitate action to stop the payment of royalties which we feel are excessive, and I feel that if you want to have the chance to discuss those things rather than rush into them, it is better to wait and even let the delivery of goods continue

and leave the matter for discussion between the Department and the owner of the patent. (Hearings, pp. 77–78, fn. 10, *supra*, p. 29.)

It would be anomalous if royalties for uses of the patented invention prior to the order were held to be immune from adjustment because of the attempted ameliorative effects of the notice and order procedure under the Act. Under its war powers, Congress might have entirely dispensed with any administrative procedure in royalty adjustment, and might have enacted a blanket statute prohibiting further payment of stipulated royalties on patented inventions used in war production, but allowing just compensation to all licensors through suits in the Court of Claims. In lieu of such radical procedure, Congress employed the administrative method prescribed in the Royalty Adjustment Act, which permits adjustment of royalties upon a selective basis. The more liberal procedures of the Royalty Adjustment Act should not be made the basis for immunizing from adjustment royalties for uses of patented inventions between the enactment of the Act and the issuance of a royalty adjustment order.

2. If a claim for accrued royalties is "taken" by the Act, fair and just compensation is provided

Even if petitioner's right to accrued royalties

were inviolable, that would not warrant holding the statute unconstitutional. Under Section 2 of the Act, petitioner may recover "fair and just compensation," and if, for constitutional or any other reason, the value of such use prior to the Act is more than the figure stipulated in the Royalty Adjustment Order, then petitioner has an adequate remedy to recover just compensation for such accrued royalties, even at the royalty rate fixed in the license, if that is proper. Such a right is, of course, sufficient to meet the requirements of the Fifth Amendment. *Hurley* v. *Kincaid,* 285 U. S. 95; *Crozier* v. *Krupp,* 224 U. S. 290. In assuring the patent owner fair and just compensation, Congress has, in effect, said that it only intends to reach royalties retroactively, to the extent that it may constitutionally do so. Accordingly, there is no basis for holding the retroactive portion of the Act unconstitutional in this proceeding. Cf. *Anniston Mfg. Co.* v. *Davis,* 301 U. S. 337.

D. THE ACT IS VALID AS AN EXERCISE OF THE EMINENT DOMAIN POWER IN AID OF THE WAR POWER

Under Point C above, we have argued that the Act is valid as a wartime regulatory measure akin to price-fixing. If, however, the war power alone is inadequate to support the validity of the Act, we submit that the power of eminent domain, in conjunction with the war power, offers the

requisite constitutional foundation for the Act. As the court below observed, the Act "is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power. It simply goes the one step further to cover the exercise of that power in the field of patents, which had already been made by the Act of 1910, as amended" (R. 120).

1. The Act appropriates a new license in return for just compensation

The Royalty Adjustment Act may be viewed as the condemnation during time of war of a license under patented inventions, which is independent of the consensual license already held by the contractor, in return for a right to just compensation from the Government.

Eminent domain, an inherent sovereign power, enables the United States to appropriate *any* private property for use in its constitutional activities. *Kohl* v. *United States*, 91 U. S. 367, 371, 374; *Albert Hanson Lumber Co., Ltd.* v. *United States*, 261 U. S. 581, 587. Patents are a species of property and as such are subject to the power of eminent domain. *Crozier* v. *Krupp*, 224 U. S. 290, 305, 306. The peacetime exercise of eminent domain by the United States is most commonly applied to real property (Act of August 1, 1888, 25 Stat. 357, as amended, 40 U. S. C. 257–258), but in wartime the scope of requisitions inevitably broadens until, to meet crises, they may be ex-

tended to almost every aspect of the economic life of the nation."[16]

And, interests in patents have been no exception.[17] Viewed as a "taking," therefore, the Royalty Adjustment Act merely represents a wartime

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[16] During World War I, statutes authorized requisition of the following types of property: Patents—Act of March 4, 1917, 39 Stat. 1168, 1169; Food, feeds, fuel, factories, packing houses, coal mines, and other commodities—Lever Act of August 10, 1917, Secs. 10, 12, 40 Stat. 276, 279; Ships, contracts relating thereto, and for shipbuilding purposes, lands, plants, and transportation facilities—Emergency Shipping Act, 40 Stat. 182, 183, 535, 1022; Housing for workers in essential war industries and for Government workers in the District of Columbia—War Housing Act, 40 Stat. 550, 595; Railroads—Act of March 21, 1918, 40 Stat. 451; Communication control, telephone and telegraph systems—Act of July 16, 1918, 40 Stat. 904; Ores, metals, and minerals needed for the national security and defense—Fuel Control Act, 40 Stat. 1009; Use of United States vessels at specified rates of hire—Act of July 18, 1918, 40 Stat. 913, 915; Ordnance proving grounds—Act of April 26, 1918, 40 Stat. 537. These acts are for the most part not now in effect, having expired or been repealed.

During World War II, statutes authorized requisition of the following types of property: Any military or naval equipment, supplies, or munitions or component parts thereof needed for the defense of the United States—Requisitioning Act of October 16, 1941, as amended, 50 U. S. C. App., Supp. V, 721, 636, 636a; Possession and operation of strike-bound plants—Section 9 of Selective Service and Training Act of 1940, as amended, 50 U. S. C. App., Supp. V, 309; Real and appurtenant personal property for war purposes—Act of March 27, 1942, 50 U. S. C. App., Supp. V, 632.

[17] Act of March 4, 1917, 39 Stat. 1168, 1169 (patents relating to the manufacture and development of aircraft).

application of eminent domain power to intangible property interests in inventions.[18]

Furthermore the Act plainly satisfies the two constitutional limitations upon the eminent domain power—that just compensation be provided (*Jacobs* v. *United States,* 290 U. S. 13, 16), and that the property be taken for a public use (*Shoemaker* v. *United States,* 147 U. S. 282, 298).[19]

a. Just Compensation

Although the right to compensation for property taken under eminent domain is inherent in the Fifth Amendment and need not rest upon statutory provisions (*Jacobs* v. *United States, supra,* at p. 16), Section 2 of the Act makes the remedy specific by authorizing aggrieved licensors to sue the United States for fair and just compensation. This provision is sufficient under the Fifth Amendment. *Hurley* v. *Kincaid,* 285 U. S. 95; *Crozier* v. *Krupp,* 224 U. S. 290.

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[18] At the hearings, the War Department representative stated that legislation now enables that department to "requisition or condemn every kind or species of property except patents. The War Department does not believe that inventions or their resultant patents are entitled to any greater degree of sanctity than other property." Hearings, p. 21. To the same effect was the testimony of representatives of the Department of Justice, *id.*, p. 48; see also H. Rep., pp. 4, 6; S. Rep., pp. 2, 4 (fn. 10, *supra*, p. 29).

[19] The requirements of the Fifth Amendment were discussed extensively during the hearings on the Act, and were deemed to be fulfilled. Hearings, pp. 20, 23; H. Rep., p. 6; see also S. Rep., p. 4 (fn. 10, *supra*, p. 29).

Petitioner complains (Br. 45) that the Act violates the Fifth Amendment in that it destroys petitioner's right to sue the licensee. But a substituted right to sue the United States, rather than a government contractor, for compensation "is as comprehensive as the requirement of the Constitution." *Yearsley* v. *Ross Construction Co.*, 309 U. S. 18, 22. "The particular remedy existing at the date of the [license] contract may be altogether abrogated if another equally effective for the enforcement of the obligation remains or is substituted for the one taken away." *Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124, 128. See also *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337; *Honeyman* v. *Hanan*, 302 U. S. 375; *Honeyman* v. *Jacobs*, 306 U. S. 539, 542; *Block* v. *Hirsh*, 256 U. S. 135, 158.[20]

Petitioner further contends (Br. 47–49, 69–71) that the right to proceed against the United States is not the "exact equivalent" of his former right to

[20] Petitioner has argued (Br. 41) that the Act violates the Seventh Amendment to the Constitution because it does not provide for a jury trial on the question of validity or damages, i. e., the value of the property taken. The limitations of the Seventh Amendment have no bearing upon suits brought against the United States, for when the sovereign consents to be sued, that consent may be so conditioned as to dispense with jury trial. See *United States* v. *Sherwood*, 312 U. S. 584, 587. Moreover, this Court has consistently ruled that due process of law does not require a trial by jury in condemnation cases. *Dohany* v. *Rogers*, 281 U. S. 362, 369; *Crane* v. *Hahlo*, 258 U. S. 142, 147; *Bauman* v. *Ross*, 167 U. S. 548, 593; *Kohl* v. *United States*, 91 U. S. 367, 376.

proceed against the licensee, since (1) the United States may challenge the patent's validity, a right normally denied a licensee, and (2) the "fair and just compensation" must take "into account the conditions of wartime production," and may thus be less than the royalties called for by the license agreement. From this, petitioner concludes that Section 2 is violative of the Fifth Amendment, citing *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

Petitioner erroneously assumes that the Act substitutes the United States for the licensee under the license agreement. When the United States issues a Royalty Adjustment Order, it is not substituted for the licensee, but takes an independent license pursuant to its powers of eminent domain (Hearings, pp. 48, 55, 71, fn. 10, *supra*, p. 29). The new license in effect provides that the royalty rate is to be the fair and just value of the use of the invention, and that the invalidity of the patent may be asserted as a defense in a suit for compensation (Secs. 1, 2). Consequently, the plea of estoppel, formerly available to the licensor when suing for royalties under the consensual license, becomes inapplicable when the licensor is suing for compensation under the appropriated license. The sponsors of the Act pointed out that to deny the Government the right to assert the invalidity of the patent "would not only be inconsistent with the essential purpose underlying

this bill, but would run counter to the tradition in all condemnation and eminent domain cases" (Hearings, pp. 48, 55, fn. 10, *supra*, p. 29).

The estoppel between licensee and licensor is merely an element in the value of their negotiated license, not dissimilar in this respect from the stipulated royalty—an agreement between the two parties as to the value of the commercial use of the patent.[21] But this cannot bind the sovereign who takes the subject matter of the contract. In determining compensation payable by the Government for a taking, the courts will consider the *actual* value of the property at the time of the taking (*Russell Co.* v. *United States*, 261 U. S. 514, 523); and the price for the property fixed in a contract between the property owner and private purchaser, while it "may be evidence of the value of what is taken," "is not the criterion of value" nor conclusive upon the courts. *United States* v. *General Motors Corporation*, 323 U. S. 373, 383. Petitioner is entitled to fair and just compensation for the use of the invention in behalf of the Government. If petitioner's patent is invalid, the value of such use could properly be fixed only at zero, as if it were any other kind of worthless article. The opportuni[illegible] afforded by the Act to have a court de-

[21] Respondent alleged in the district court that it entered into the instant license agreement with petitioner to avoid "the futility of expending large sums of money in contesting and litigating" a patent of "doubtful validity" (R. 3).

termine the fair value of the property taken, and to obtain compensation accordingly meets the requirements of the Fifth Amendment. *Hurley* v. *Kincaid*, 285 U. S. 95; *Crozier* v. *Krupp*, 224 U. S. 290.

Richmond Screw Anchor Co. v. *United States*, 275 U. S. 331, cited by petitioner (Br. 37, 47, 70), far from supporting petitioner's argument, confirms the Government's position. In that case, a suit against the United States under the 1910 Act as amended in 1918, brought by the assignee of a patent for the use of the invention by a government contractor prior to the assignment, was met with the defense that the suit was barred by Section 3477 of the Revised Statutes, forbidding the assignment of claims against the Government. This Court held that to construe R. S. 3477 as applicable would "raise a serious question as to the constitutionality of the Act of 1918," since it must be presumed "that Congress in the passage of the Act * * * intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. It was taking away assignable claims against the contractor for the latter's infringement of his patent. The assignability of such claims was an important element in their value and a matter to be taken into account in providing for their just equivalent" (at 345). It is thus clear that the "exact equivalent" to which this Court referred was not an exact equiva-

lent in terms of money, but an assignable cause of action against the United States in lieu of an assignable cause of action against the contractor. The Court pointed out that if "section 3477 applies and these assignments are rendered void, the effect of the Act of 1918 is to take away from the assignee and present owner not only the cause of action against the Government, but also to deprive it of the cause of action against the infringing contractor for injury by his infringement" (275 U. S. at 345).

That this Court was not concerned with an "exact equivalent" in terms of compensation is to be seen from the fact that the rights of a patent owner or his assignee against an infringer (profits plus a maximum of treble damages, 35 U. S. C. 67, 70), may amount to considerably more than his right to "reasonable and entire compensation" under the 1910 Act as amended. See *Olsson* v. *United States*, 87 C. Cls. 642. Yet, in both the *Richmond* case, *supra*, and in *Crozier* v. *Krupp*, 224 U. S. 290, this Court recognized that the substitution of a right to "reasonable and entire compensation" for the patent owner's rights against an infringer, meets constitutional requirements.

b. Public Use

The second requirement of condemnation—that the intended use be public—is also clearly met, since it is not denied that the structures here

involved have been used in equipment required for the prosecution of the war. This Court has upheld the taking of licenses under patents not only for direct use by the Government (*Crozier* v. *Krupp*, 224 U. S. 290, 305), but also for use by its contractors (*Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331). Cf. *International Paper Co.* v. *United States*, 282 U. S. 399. The necessity for the taking is a question solely for Congress. *North Laramie Land Co.* v. *Hoffman*, 268 U. S. 276, 284; *Bragg* v. *Weaver*, 251 U. S. 57, 58; *Old Dominion Land Co.* v. *United States*, 269 U. S. 55, 66; *United States ex rel. Tennessee Valley Authority* v. *Welch*, No. 528, last Term, decided March 25, 1946. Congress has here decided that the necessity exists. See Section 1 of the Act (*infra*, p. 81).

2. The Act may apply to uses under a pre-existing license agreement

As noted, *supra*, p. 63, petitioner's license agreement with respondent is not what is "taken" under the Act. The Act authorizes the appropriation of a license from the patent owner independent of and separate from the consensual license already held by the government contractor or subcontractor, and it is for this independent license that the United States is bound to pay fair and just compensation. The appropriated license then covers all use by Government

contractors or subcontractors, past and future, for which royalties under the consensual license had not been paid to the licensor prior to the notice. The legislative materials leave no doubt that the existing license agreement was not the property taken. See H. Rep., p. 6; Hearings, pp. 48, 71 (fn. 10, *supra*, p. 29).

It is true that the Royalty Adjustment Order thereby prevents full performance of the preexisting license agreement. But this is due to the fact that, by appropriating an independent license to use the invention, the United States is in effect taking the subject matter of the license agreement between the Government contractor and the patent owner (the use of the invention for the Government), thus preventing the performance or application of that license agreement in respect of such use. In other words, since the use of the invention under the new license would otherwise be covered by the consensual license, the effect of the statute is temporarily and partially to suspend or frustrate performance of the private agreement, except in so far as its operation is permitted by the Royalty Adjustment Order. It is clear that frustration of a pre-existing contract by condemnation of its subject matter neither violates any constitutional guarantee nor constitutes a "taking" of the frustrated contract or of the "money" due thereunder. *Omnia Co.* v. *United States*, 261 U. S.

502.[22] "There can be no right to restrain by contract the power of eminent domain" and "any contract by which it was sought to accomplish that result would be inefficacious for want of power." *Pennsylvania Hospital* v. *Philadelphia*, 245 U. S. 20, 23. Hence, the pre-existing license agreement between petitioner and respondent cannot preclude the application of the Federal power of eminent domain to uses of the invention which were covered by that license.

Principles of eminent domain are equally available to support the application of the statute to royalties which accrued before it was enacted. This is so because the sovereign's power to take a license under a patent in return for just compensation necessarily includes the power to pre-

[22] The doctrine of the *Omnia* case was recently cited with approval in *United States ex rel. T. V. A.* v. *Powelson*, 319 U. S. 266, 282. See also *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, 95. These citations would seem to dispel any notion that the *Omnia* decision had been weakened by *Brooks-Scanlon Corporation* v. *United States*, 265 U. S. 106. In the *Brooks-Scanlon* case, the Government not only ordered the physical taking of the vessel, but directed the shipbuilder to "proceed in conformity with the requirements" of Brooks-Scanlon's contract (265 U. S. at 117), and this Court found that by such an order the Government "put itself in the shoes of [Brooks-Scanlon] and took from [it] and appropriated to the use of the United States all the rights and advantages that an assignee of the contract would have had" (at 120). Here there was no substitution under the license agreement. See Sec. 2, authorizing the defense of validity (which the licensee is normally estopped to assert) in a suit for just compensation (Appendix A, *infra*, pp. 82–83).

scribe the terms and conditions of the license, in order that the interest taken may best serve the sovereign's purpose.

Whatever type of license could be the subject matter of a voluntary agreement between the patent owner and another person, the sovereign may requisition under the power of eminent domain; by this *in invitum* type of sale, the sovereign can in effect write any type of license he wants, and then pay the patent owner whatever just compensation the Constitution requires.

It is, of course, clear that a patent owner may issue a license for part or all of the patent term; for some or all of the potential uses of the invention; or under one or more of the claims of the patent. *Agawam Company* v. *Jordan,* 7 Wall. 583; *Ethyl Gasoline Corporation* v. *United States,* 309 U. S. 436, 456. Likewise he may grant a license which dates back prior to the execution of the license. Cf. *Western Battery & Supply Co.* v. *Hazelett Storage Battery Co.,* 61 F. 2d 220, 231 (C. C. A. 8). By the same token, the sovereign can requisition such a license if it deems this necessary or proper: a license for part of the patent term, for some of the uses of the invention, under some of the claims, or for a period in the past as well as for one in the future. So long as the type of instrument desired is known and permissible under the patent, the sovereign is as free to acquire it by eminent domain as by a consensual transaction with the patent owner.

The only difference is that the consideration is left to a court rather than to the agreement of the parties.

There is nothing in the nature of a license which would preclude the sovereign from taking one which dates back to a period prior to the taking. This Court has said:

> A license is not an assignment of any interest in the patent. It is a mere permission granted by the patentee. It may be a license to make, sell and use, or it may be limited to any one of these separable rights. If it be a license to use, it operates only as a right to use without being liable as an infringer. If a licensee be sued, he can escape liability to the patentee for the use of his invention by showing that the use is within his license. But if his use be one prohibited by the license, the latter is of no avail as a defense. As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee. Robinson on Patents, §§ 806, 808.[28]

There is no reason why the patentee may not waive his right to sue for prior use as well as

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[28] *Henry* v. *A. B. Dick Co.*, 224 U. S. 1, 24. The decision in this case was overruled in *Motion Picture Patents Company* v. *Universal Film Manufacturing Company*, 243 U. S. 502, but the description of the nature of a license has since been reaffirmed. See *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175. Petitioner apparently agrees that a patent license is merely a waiver of a right to sue for infringement (Supp. Br. 4).

future use. Consequently, the sovereign would seem free to take, by eminent domain, a license which is both retroactive and prospective.

It is true that the Act, as applied to uses occurring prior to its enactment, involves a retrospective exercise of the eminent domain power, and in that aspect represents a relatively novel use of that power. But that is no cause for striking down the Act as unconstitutional. The unusual conditions occasioned by total war often necessitate unusual remedies. And this Court has, even in peacetime, countenanced a retroactive exercise of the sovereign power of eminent domain. Cf. *Shoshone Tribe* v. *United States*, 299 U. S. 476. If the eminent domain power may be so used retroactively in peacetime, surely it may be exercised retroactively under the pressures and necessities of total war.

E. THE AMOUNT RECOVERABLE AS JUST COMPENSATION IS DEPENDENT UPON THE EVIDENCE ADDUCED BEFORE THE COURT OF CLAIMS; IF THE PATENT IS VALID, PETITIONER'S RIGHTS TO ROYALTIES UNDER ITS CONTRACT WILL BE FULLY PRESERVED

The order restoring this case to the docket for reargument requests that special consideration in the briefs and argument be given, *inter alia*, to the following question:

> Whether sec. 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, royalties stipulated to

be paid under its contract with respondent, Timken-Detroit Axle Company.

As already noted, *supra*, p. 31, the Government concedes, for the purpose of this case, that the stipulated royalties in the instant case are reasonable, if the patent is valid. Therefore, the only issue to be adjudicated in the Court of Claims suit is the validity of the patent. If petitioner can there establish that the patent is valid, petitioner will be entitled to recover the full amount of the stipulated royalties;[24] should the patent be found invalid, petitioner will be entitled to recover nothing.

If there were a question here as to the reasonableness of the stipulated royalties (apart from the patent's validity), there would be no sound basis, on the present state of the record, for determining what amount the Court of Claims could properly award petitioner as "fair and just compensation * * * taking into account the conditions of wartime production" (Appendix A, *infra*, p. 83). Application of the statutory formula requires not only the construction of the language

[24] Of course, as a condition precedent to recovery, petitioner must show that the transfer cases in question are covered by the patent, and the District Court herein has already ruled that these transfer cases are not covered by the patent (R. 50). Accordingly, if that judgment were affirmed by the Circuit Court of Appeals on remand, the matter would be *res judicata* as to all the parties (the United States having intervened after the decision of the District Court), and petitioner would obviously have no further cause of action either in the Court of Claims or elsewhere.

used, but the taking of evidence on the issue of value, for in any suit for just compensation it is the particular facts of each case that determine the precise amount of recovery.

In order to be fully responsive to Question 2 propounded by this Court in its order for reargument, the following observations can be made with respect to the meaning of the standards of compensation specified in Section 2 of the Act. That section uses the phrase "fair and just compensation" as distinguished from the phrase "reasonable and entire compensation" employed in the Act of June 25, 1910, as amended (36 Stat. 851, 40 Stat. 705; Appendix B, *infra*, p. 87). This difference in language is not accounted for in the legislative history of the Act, and there is some suggestion that no different result was intended. While the Senate Report (S. Rep. 1640, 77th Cong., 2d Sess.) does not advert to the question, the House Report states that "the licensor has an action against the Government for such sum, if any, as he may be entitled to, in addition to the amount already paid, as would make the total constitute fair and just compensation. *This is all he could recover in cases of unlicensed use of an invention*" (Italics supplied; H. Rep. 2602, 77th Cong., 2d Sess., p. 6). This explanation suggests that, despite the variance in language between the Royalty Adjustment Act and the 1910 Act, as amended, the measure of recovery in the Court of Claims was intended to be the same. Further support

for this view appears from the fact that the 1910 Act, as amended, has been interpreted by the Court of Claims as calling for a "reasonable" royalty,[25] and the fact that in the hearings on the Royalty Adjustment Act, several of the sponsors of the proposed bill, in substance, characterized it as affording a "reasonable" royalty to the patent owner.[26]

A cardinal distinction between the language of the 1910 Act, as amended, and the Royalty Adjustment Act, is the explicit direction in the later act that the Court should award fair and just compensation, "taking into account the conditions of wartime production." It may well be that even without this direction, the Court, in determining a reasonable royalty, would take the conditions of wartime production into account, for manifestly, what is a reasonable royalty rate in peacetime may become unreasonable by virtue of the tremendous increases in wartime production. However, the express direction by Congress eliminates any question on the matter.

F. NO PROBLEM OF PROCEDURAL DUE PROCESS IS PRESENT HERE

Petitioner contends that the notice and "hearing" before the War Department were inadequate under the Fifth Amendment and that the War Department's "determination" that the patent

[25] *Marconi Wireless Telegraph Co.* v. *United States*, 99 C. Cls. 1, 49; vacated in part and affirmed in part, 320 U. S. 1; *National Electric Signaling Co.* v. *United States*, 99 C. Cls. 646, 661.

[26] See Hearings, pp. 23, 41–42, 48; fn. 10, *supra*, p. 28.

was invalid is objectionable because not based upon any evidence before the administrative board, nor upon any findings by the Board (Br. 49–50). These contentions are wholly without merit, for they misapprehend both the requirements of the Act and the commands of due process.

Under Section 1 of the Act, the patent owner or licensee, upon request, is entitled to an opportunity to "present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any," to be fixed in the Royalty Adjustment Order (Appendix A, *infra,* p. 82). It is plain that Congress did not intend that a formal hearing be had before a quasi-judicial body. The "hearing" provided by Section 1 was designed to "afford the licensor or licensee * * * a reasonable opportunity to discuss * * * the amounts and rates of royalties before the issuance of any order fixing such amounts or rates, without danger of delaying or interfering with the war effort, which a formal hearing might entail" (H. Rep., p. 2 (fn. 10, *supra,* p. 29)). The procedure was intended to promote amicable adjustments out of court. This is substantiated by Section 3 of the Act, which allows the department or agency concerned to settle with the patent owner whether or not a royalty adjustment order has been issued.[27]

[27] See also H. Rep., p. 5; Hearings, p. 19 (fn. 10, *supra,* p. 29).

The provisions for an informal conference raise no constitutional question. The Constitution does not require that an owner who is guaranteed just compensation be given a hearing before the administrative board which initially determines the amount of compensation to be paid, so long as he has a right to judicial review of the administrative determination, with a full hearing in the court.[28] Since the Royalty Adjustment Act permits *de novo* trial in the Court of Claims to determine just compensation, regardless of the outcome of the conference, there can be no constitutional objection to the procedure.

G. IF ANY CONSTITUTIONAL ISSUE IS POSED BY THE INSTANT PROCEEDING, IT IS NARROW IN SCOPE

Assuming that the validity of the Royalty Adjustment Act may properly be considered in this case, the constitutional issue posed is narrow in scope. For, as applied here, the only effect of the Act is to substitute the Court of Claims for the district court as the tribunal for adjudicating petitioner's claim to royalties, and to substitute the United States for the licensee as the formal adversary in the case.

Petitioner appealed to the court below solely to review the determination by the district court that certain of respondent's transfer cases were outside the patent. The court below, because of

[28] Cf. *Bragg* v. *Weaver*, 251 U. S. 57, 59; *North Laramie Land Co.* v. *Hoffman*, 268 U. S. 276, 285–286; *Crozier* v. *Krupp*, 224 U. S. 290, 306.

the intervening enactment of the Act and the issuance of the Royalty Adjustment Order, declined to pass upon the correctness of the district court's holding of noncoverage, and remitted petitioner to a suit in the Court of Claims, under Section 2 of the Act, for fair and just compensation. Until that suit is brought to a conclusion, petitioner cannot show that it has in any way been injured by the Act. Conceivably the Court of Claims may decide the issues of patentability and coverage in petitioner's favor and so construe "fair and just compensation" as to award petitioner an amount equal to the stipulated royalties. Therefore, in the present posture of this case, the only impact of the Act upon petitioner is to substitute the Court of Claims for the district court as the tribunal for adjudicating petitioner's claim, and to substitute the United States for respondent as the formal adversary in the suit. Cf. *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337. The immediate constitutional question presented to this Court, therefore, is whether such a substitution in forum and formal adversary is within the power of Congress. Any ruling upon the broader aspects of the Act would violate two fundamental canons of constitutional adjudication, namely that this Court "will not 'anticipate a question of constitutional law in advance of the necessity of deciding it'" and that it "will not 'formulate a rule of constitutional law broader than is required by the precise facts to which it

is to be applied' " (Brandeis, J., concurring in *Ashwander* v. *Tennessee Valley Authority*, 297 U. S. 288, 346–347).

Insofar as the substitutions in forum and formal adversary are concerned, there can be little question that Congress has the power to prescribe such changes. "The particular remedy existing at the date of the [license] contract may be altogether abrogated if another equally effective for the enforcement of the obligation remains or is substituted for the one taken away." *Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124, 128. See also *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337; *Honeyman* v. *Hanan*, 302 U. S. 375; *Honeyman* v. *Jacobs*, 306 U. S. 539, 542; *Block* v. *Hirsh*, 256 U. S. 135, 158; *Yearsley* v. *Ross Construction Co.*, 309 U. S. 18, 22.

There is nothing here present to show that petitioner's remedy before the Court of Claims, with ultimate review by this Court, will not be equally effective to preserve whatever right petitioner may have to the stipulated royalties. As already noted, the Court of Claims may conceivably decide the issue of patentability in petitioner's favor and so construe "fair and just compensation" as to award petitioner an amount equal to the stipulated royalties. Therefore, this Court should not now "enter into a purely speculative inquiry for the purpose of condemning statutory provisions which have not been tried out and the effect of which cannot now be definitely

perceived." *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337, 355. Moreover, we know of no reason why the Court of Claims, or this Court upon review of the judgment of the Court of Claims, would not be free to decide all questions of law, including any challenge to the validity of the statute itself. In this manner, the substitute remedy provided by the Act would preserve to petitioner every constitutional right to which it is entitled. Cf. *Anniston Mfg. Co.* v. *Davis, supra.* We submit, therefore, that the Act, as applied here, in providing for a substitution in forum and formal adversary, is clearly constitutional.

CONCLUSION

The Royalty Adjustment Act is constitutional. However, it is respectfully submitted that the validity of the Act should not be determined at the present stage of the proceedings, and that the case should be remanded for further consideration of the nonconstitutional questions that may be dispositive of the entire controversy.

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APPENDIX A

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. V, 89–96) reads as follows:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided,*

however, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to

recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price

to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the

United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (*l*) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be

heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

APPENDIX B

The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. 68) reads as follows:

> Whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however,* That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further,* That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise.

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